LIFE Strategies TODAY

March 2013

Market Update

Financial markets have started the year in fine fashion, with shares rising over 10% at one stage. At the time of writing the market is up 7.5%. This is after a 13.5% rise in 2012. From the low in June the markets have risen by 25%!

What has changed and what are the risks?

The biggest change domestically is that interest rates have fallen. From the peak of 4.75% in November 2011 cash rates have fallen to a generational low of 3%, the same level as the emergency rate settings during the GFC.

From the end of 2009 the RBA had been raising rates whilst the rest of the developed world lowered their rates. It had a devastating effect on confidence, created a bubble in the bond market and halted the recovery in share prices after the sell off in 2008.

The chart below shows how as soon as interest rates started rising in October 2009 the market started to go sideways.

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The bottom of the equities market in October 2011 coincided with the first rate cut after an extended period of tight monetary policy. As rates have fallen the market has risen. More money has flowed out of cash chasing higher yields in equities.

Political uncertainty weighed on the market. Gillard over threw Rudd and proceeded to introduce two new taxes – the MRRT (aka The Mining tax) and the Carbon Tax. The taxes were introduced in July 2012, at the lowest point in the market in 2012. Markets don't like uncertainty and introducing the taxes, bad or otherwise, created certainty.

Treasurer Swan was initially very focused on balancing the budget at a time when apart from the mining boom, the rest of the economy was contracting, or at least struggling. Swan has now conceded that he will not be able to balance the budget.

The international issues that also helped derail the market at times over the last three years are abating. The only thing that will completely solve the financial woes of Europe and the US is time. It is now 5 years since Bear Stearns was bailed out. The world hasn't imploded and life goes on.

From time to time the sovereign debt problems in Europe arise. Recently Cypress, a member of the Euro, was required to force bank depositors to shoulder part of the country's bailout. In return for 10 billion euros, a deal had sought to raise 5.8 billion euros by drawing funds from Cyprus bank accounts.

It is unlikely that a nation the size of Cypress would send Europe over the edge, but it is a reminder that all is not well in Europe.

In the US ultra loose monetary policy settings have seen the Dow Jones Index breach its previous high set in October 2007. Recent data has helped the market, in particular the housing construction market is coming to life. Housing construction has a strong trickle down effect. Besides construction materials, a new home needs to be fitted out with

plumbing, soft furnishing, white goods etc.
However the zero interest rate policy is risky. Printing money has consequences, the main one being inflation. The US can't retain this policy forever, and every day it is closer to when the Fed has to stop printing money and start raising rates. This could potentially halt the 4 year bull market in US shares.

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There is a fair chance that the market has peaked in the short term. The last leg of the recent rally was despite resource shares falling. BHP and RIO peaked on February 20. The broader market peaked on March 12, driven mainly by the banks. CBA hit $71, and NAB and Westpac $32. Wesfarmers reached $43.50 and Woolworths $36, well above its previous record high of $34.70 set in December 2007. Wesfarmers high was also a record.

CBA has now surpassed BHP as the largest weighting in the major indices. The top 5 stocks, BHP and the 4 major banks represent 38% of the weighting of the S&P/ASX20. The top 10, which include

Telstra, Wesfarmers, Woolworths, CSL and Rio, are worth 55% of the index. Of those, 6 have traded at record highs in the last two weeks. It is likely that for now the gains have been seen in the large cap stocks, particularly if interest rates

begin to rise between now and the end of the year.

Resources

In August last year there was panic in the resources market after iron ore prices temporarily dropped below $90 per tonne. Prices recovered to $145 per tonne by the start of the year.

Now there is more panic after some resource analysts have forecast that the iron ore price will fall to $80 per tonne by 2015 as the market moves into oversupply. Rio will increase its production this year to 290 million tonnes this year and 360 million tonnes by 2015. It's not hard to imagine there will be an oversupply. Nev Power, the CEO of Fortescue stated last year that the marginal cost of production for most Chinese producers is above $100 per tonne therefore production will cease if the price falls too far below that price.

Goldman Sachs has added Rio to its high conviction sell list as it sees the price of iron ore falling.

In early 2011 the price of copper peaked at $10,000 per tonne. By the end of the year it had fallen to $7000 per tonne and currently stands at $7500 per tonne. Ten years ago the price was below $1500/tonne.

Gold peaked at $1890/oz in late 2011 and subsequently fell to $1540/oz. It recovered to $1800/oz in late 2012 but now stands at $1600/oz. Whilst gold has fallen 15% from its peak, Newcrest, our major gold producer, has fallen 46%. There is a disconnect between Newcrest's and other gold producers share price and the price of gold.

Interest Rates

The Reserve Bank has lowered rates six times since the end of 2011 after being on hold for a year. The minutes of the RBA's March & April meeting include phrases "while further reductions may be required" and "accommodative stance of monetary policy is appropriate".

The RBA is a poor economic forecaster; and the RBA changes its view very quickly. We doubt the RBA will lower rates, unless there is another major international economic event but we suspect it will be later in the year before rates move significantly.

Mortgage Broking News - One10

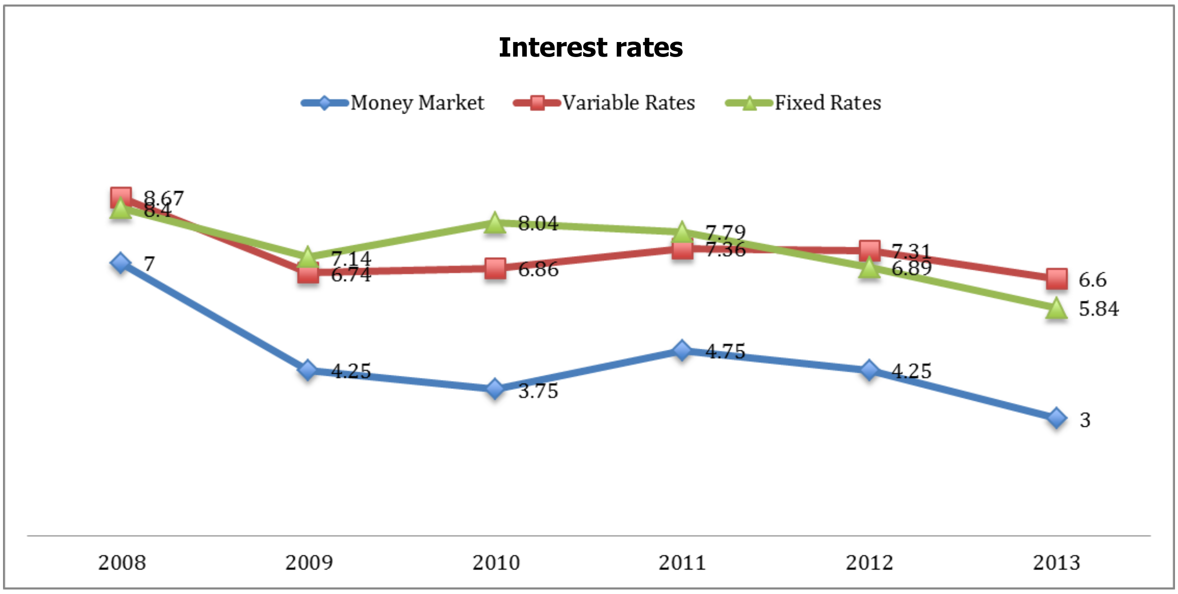
Fixing Rates

At the moment, fixed rates are all the hype, and fixing does have its benefits. Fixing your loan can protect you against rising interest rates. Yet its not one-way traffic. There are many factors to consider before fixing, as it may end up with you paying more.

For instance, until 2008 rates were constantly increasing, and you would be forgiven for fixing at its peak in 2008. If you did, you would have paid the penalty, as since then we have seen rates continue to decline.

So when is a good time to fix? When fixing, it is always a good idea to check the interest rate offered by your lender against the current money market rate. The closer the gap between the two, the better the deal and the more confident you can be in signing up for that fixed mortgage product.

The graph below shows this pattern over the last 5 years, and fixed rates have actually dipped below variable rates in recent times. With variable rates already at record lows, we believe this presents a great opportunity to fix. However, a fixed structure is not for all circumstances. It is important to discuss with your Adviser if fixing your loan is the right 'overall' move for you.



Below is a selection of the markets best five year fixed rates:

ANZ	Commonwealth Bank	ING BANK	st.george
4.99%	4.99%	4.99%	4.99%

All lender offers are subject to approval. Terms and conditions apply. Speak with your Financial Adviser for more information or to make an application.

Disclaimer: This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek professional financial advice prior to acting on this information. **Investment Performance:** Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

Revisiting Tax Deductable Expenses.

As a general rule, expenses incurred in the earning of assessable income are deductible. Some of the more common areas you may be able to uncover some deductions might include:

- Work related claims such as;

Clothing expenses:

i. Payment for work-related clothes such as compulsory, non-compulsory (and registered) occupation specific clothing;

ii. Protective clothing;

Associated expenses such as dry cleaning, laundry and repair of above;
Self education expenses:

i. Course fees (not HECS-HELP fees), student union and tutorial fees;

Interest on borrowings used to pay any deductible self education expenses;
Other work related expenses:

i. Union fees;

ii. Subscriptions to trade, professional or business associations;

iii. Magazine and newspaper subscriptions;

iv. Seminars and conferences;

v. Income protection insurance (excluding death & disability);

vi. Business travelling expenses such as bridge and road tolls, car parking and other motor vehicle expenses;

vii. Overtime meal allowances;

viii. Sun protection items;

Tools of trade;
If a client is running a home office, a range of deductions may be available depending on whether the area of the home set aside as an "office" is considered to be a "private study" or a "place of business". The decision as to which description applies and hence, which expenses may be deductible, is a question of fact depending on the circumstances of the case.

The key point to recognize is that where the area is classified as a place of business, a portion of the expenses relating to ownership (such as rent, mortgage interest, rates and house insurance premiums) and use of facilities may be deductible. However, the client should also be aware that where the home is a "place of business", there may be capital gains tax implications when the home is eventually sold.

Where the area is classified as a "private study", a more limited range of running expenses (but not the ownership expenses) relating to the use of facilities within the home may be deductible. These may include expenses such as:

- Cleaning
- Heating and Cooling
- Depreciation of office furniture;
- Lighting;
- Telephone

This can be a complex area with implications that reach well beyond the immediate tax deduction claimed and the repercussions may not surface until the home is sold potentially some years into the future. It is strongly recommended that clients seek professional tax advice when considering issues regarding running a home office.

Between the deductions available through superannuation and the other deductions, there are many opportunities to work with your Accountant to better manage your financial arrangements, should you have any questions please contact Barbara Rawlingson on her email smsf@lifestrategies.net.au

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The Value of Financial Advice for someone in their 20s

You might be guilty of thinking that someone in this age group is often just in the work force, trying to pay off credit card debt, buy a car and just make ends meet… what value could financial advice provide to them.

In the last quarter Michael and Sharni have met with a number of people in this age group, sometimes from new enquiries but often children or grandchildren of existing clients.

We provide this initial meeting at our expense as we do with all prospective clients.

We have found that the ideas generated in just one meeting can generate potential benefits in excess of $2,000 for these young people just from accessing government benefits that they were not aware of before the meetings. We hope the focus on financial education and setting goals will have a much more significant impact on these young people's financial success throughout their lives.

Getting started is often the hardest thing and knowing who to turn to for advice. After the meeting we outline a set of issues that they should look to address and learn more about and we ask that they then consider the following.

1. Think of Life Strategies as their first port of call for any financial advice in the future – we offer tax, super, insurance and mortgages services as well as investment advice that they may wish to access.

2. Refer friends, family and colleagues who they believe might benefit from our expertise – we encourage them to put the following information into their phone so they can contact us and have the details available should they meet someone who they would want to refer. This might be something you wish to do now.

Phone: 02 9487 8200
Email: yourfinancialcoach@lifestrategies.net.au
Website: www.lifestrategies.net.au

3. Keep in touch and let us know how they go with the information provided and anything they find that we have not pointed out that may improve our service in the future.

We will contact these young prospective clients a year after this initial meeting and offer an annual review meeting service at a cost of $495 including GST which may be tax deductible and therefore will be a net cost of approx $327 per year or $0.90 per day to stay focused and up to date.

If you feel this would be valuable for someone you know, we would appreciate the referral.

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Superannuation Update for 2013/14

WILL YOUR EMPLOYER BE PAYING YOU MORE SUPER FROM JULY ?

The ATO has just released the Super Thresholds for 2013/14. The amounts most of us can contribute to superannuation have not changed – see below – however your employer will be contributing 9.25% from 1 July 2013 instead of 9% currently. This contribution will increase over time to 12%.

Dollar Values

Concessional contributions		$25,000		(no change)
Non-concessional contributions		$150,000		(no change)
Bring forward of non-concessional contributions		$450,000		(no change)
CGT contributions cap		$1,315,000		(previously $1,255,000)
Retirement component of CGT Cap		$500,000		(unchanged)
Low rate cap amount		$180,000		(previously $175,000)

WILL YOUR SUPER PENSION DRAWINGS HAVE TO INCREASE THIS YEAR ?

If you are drawing a pension from your superannuation fund you will be aware there was a reduction in the minimum you were required triggered by the Global Financial Crisis (GFC) – from 1 July 2013 the minimums return to the pre GFC amounts as outlined below:

Account-based pension rates				
Below age 65		4%		(previously 3%)
65 to 74		5%		(previously 3.75%)
75 to 79		6%		(previously 4.5%)
80 to 84		7%		(previously 5.25%)
85 to 89		9%		(previously 6.75%)
90 to 94		11%		(previously 8.25%)
95 and above		14%		(previously 10.5%)
SGC Charge Percentage		9.25%		(previously 9.0%)

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Is your Retirement in Jeopardy?

The permanent return of an adult child to the family nest can also see a retirement date for one or both parents deferred to an indefinite date.

What's more, the move home might also include a spouse and 2-3 grandchildren. Insurance advisers like us continually hear and read stories about parents who have had to save one of their married children from bankruptcy, brought about by serious illness or injury.

Instead of passing on an estate equally to all children, it can all go to one child, in advance, leading to the sort of conflict that would often entail.

Our advice to those contemplating retirement is to make sure that your children are adequately insured. 'Making sure' means more than relying on what is automatically dished up by your children's employer-sponsored superannuation fund.

It means making sure that income protection covers the short and long term. It means making sure that a family's home will not be lost because your child or their spouse is diagnosed with cancer.

Expenses go up if there is serious illness, they don't go down and new and better (and more expensive) treatments never seem to be listed on the Pharmaceutical Benefits Scheme (PBS).

Retirement income streams are normally designed to support two people not 6 or 7!

If adult children will not or cannot afford to pay their insurance premiums then their parents might consider helping out- at least over the short term. It might end up saving the parents a great deal more than the cost of the initial premiums.

If you want to ensure both your retirement and your children's futures are secure, contact us for a no obligation discussion.

Recent Training Attended

Our team regularly attend Professional Development sessions offered in relation to their work. These are some of the courses attended/ completed in the last quarter.

Sharni

- FPSA Professional Development Day
- ASX Self-Managed Super Investment Seminar
- Platinum Asset Management - Strategy and Outlook on International Funds
- GPS Wealth workshop – Building a Profitable and Successful Financial Services Business

Michael

- Commenced CFP (Certified Financial Planner) studies
- Completed ongoing professional training on insurance, superannuation, credit and taxation

Barbara

- Barb attends BGL update courses regularly to assist with changes to the software we use, to allow for changes to tax, legislation and to improve efficiencies in preparing SMSF accounts.

Download the QR code application on your smartphone then scan this code and it will take you directly to our website!

Contact:

Life Strategies

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E: yourfinancialcoach@lifestrategies.net.au

Would your family or friends benefit from reading our newsletter?

Please feel free to forward our newsletter to them if there are items you think would be relevant and could benefit them.

If you require extra copies please do not hesitate to contact our office.